

Department of Defense
Property, Plant and Equipment (PP&E) Policy
Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)



New and Evolving Policy and Reporting Requirements for Plant, Property & Equipment

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Summary of Topics

- **New FASAB Standard for Military Equipment**
- **Impact on Property on the Possession of Contractors**
- **USD(C) and USD(AT&L) Direction**
- **Property and Equipment Cross-Domain Integration Project**
- **Impact on DPAS and Its Users**
- **Other PP&E Related Policies Matters**

New FASAB Standard for Military Equipment

Federal Accounting Standards Advisory Board (FASAB) amended the “Property, Plant and Equipment” Accounting Standard

- Category “National Defense Equipment” eliminated
- General PP&E accounting amended to include Military Equipment
- Capitalization and depreciation **required** for existing Military Equipment and future acquisitions
- Effective for FY 2003

Amendment Implementation Guidance provides flexibility

- Recognizes the imprecision of developing historical costs for exiting assets
- Allows the use of composite and group depreciation
- Allows various means to estimate initial capitalization amounts

DoD Implementation Objective:

***Support DoD decision-maker information requirements
as well as meet the FASAB accounting requirements***

Impact of new FASAB Standard on Property in the Possession of Contractors (PIPC)

- **Most PIPC is purchased for the manufacture of military equipment**
- **In most cases, the cost of property and material furnished to contractors or acquired by contractors should be/will be included in the *full* cost of the military equipment end items produced by the contractors**
- **Accountability and visibility still important**

USD(C) and USD(AT&L) Direction

Impossible for DoD to meet FASAB requirements with existing systems and infrastructure. Successful implementation to be achieved through the a Property and Equipment implementation project conducted in consonance with the Business Management Modernization Program.

USD(AT&L) and USD(C) directed PP&E Policy, OUSD(AT&L), to lead the Department's implementation to ensure:

- Standard and consistent approach and methodologies
- DoD policies are modified, coordinated and promulgated
- Historical (baseline) costs pass the tests of the audit community

USD(C) directed PP&E Policy, OUSD(AT&L), to:

- Develop "parametric" estimate to be reported in the June 30, 2003, Financial Statements
- To complete the Business Enterprise Architecture for property and equipment requirements by the end of April 2004

“Parametric” Historic Cost Baseline

- **Per USD(C) direction to report the cost of military equipment in the June 30, 2003, financial statements**
 - Using Bureau of Economic Analysis (BEA) data to develop the values for military equipment by DoD Component
 - This approach has been generally approved by the audit community
 - Will transition from BEA data to actual historic costs incrementally through FY 2006

Nationally recognized source for economic information

- Produces National economic data, such as values for Gross Domestic Product (GDP)
- Also develops values for Government and private fixed assets

Extremely supportive of the Department’s efforts to value military equipment

- Pleased that its information is being used to meet this critical requirement
- Recognizes the potential for improving its information

Assisting in “tweaking” database to bring into line with DoD reporting requirements

- Non-ballistic missiles being eliminated
- Traditional General PP&E being eliminated
- Data base being allocated by Component

Property and Equipment (P&E) Cross-Domain Integration Project

- **P&E Project led by PP&E Policy, OUSD(AT&L), and worked with the BMMP Domain Owners and DoD Components**
 - Started in July 2003 and continues through 2007
 - Most significant near-term milestones requires the development of a “To Be” Conceptual Business Model reflecting how DoD processes and systems will work in the future to meet the new accounting and reporting requirements and to incorporate the model in the Business Enterprise Architecture
 - Crosses Acquisition/Procurement, Logistics, Programming and Budgeting, and Finance and Accounting Domains
- **P&E Project Vision:**

“Property and equipment accountability and financial information is accurately, timely and routinely provided to DoD decision-makers and reported in DoD financial statements through, to the maximum extent possible, automated processes and systems that are transparent to the warfighter.”

Property and Equipment (P&E) Cross-Domain Integration Project

■ P&E Project Objectives

- Focus primarily on information needs of decision-makers, while also ensuring compliance with the Federal Accounting Standards
- Institutionalize standard approaches and methodologies; avoid uniqueness
- Optimize the use of business technology/automation; avoid manual processes
- Obtain data reliability through strong internal controls
- Minimize the cost of developing military equipment historic cost baseline; focus on the “To Be”

■ P&E Project Approach

- Implementation work to be conducted as an integral component of the BEA and in consonance with the Military Department CFO Strategic Plans
- Involve the acquisition, logistics and financial communities of OSD and DoD Components
- Supported by a knowledgeable contractor team
- Involve the DoD IG and GAO to ensure that when completed, valuation, processes and systems comply with the Standard, CAMS)



P&E Project Major Tasks

- Task 1: Develop and Execute a Change Management and Communication Strategy**
- Task 2: Document the “As-Is” Environment across DoD**
- Task 3: Develop “To Be” Conceptual Business Model**
- Task 4: Develop Acquisition, Logistics and Financial Management System Requirements and Ensure On-going and New DoD Component Systems Initiatives Are Consistent with the BEA**
- Task 5: Develop a Conceptual Data Model and Perform Data Management**
- Task 6: Conduct an Analysis of Alternatives, Develop a Request for Proposals for a System Solution(s) and Implement System Solution(s)**
- Task 7: Develop Transition Plans**
- Task 8: Establish an Organizational Capability within the DoD Components**
- Task 9: Meet Interim and Historic Cost Baseline Reporting Requirements**

Approach to Developing the Historic Cost Baseline

- **Identify the “universe” of military equipment programs; identified 622 to date**
- **Schedule and meet with Program Executive Officers and Program Managers to brief the requirement and explain valuation objectives**
- **Meet and interview knowledgeable PMO representatives**
- **Collect, document and validate acquisition, modification and upgrade cost and useful life data**
- **Collect, document and validate quantity information, date items delivered and disposed**
- **Calculate the acquisition cost by program, block or item, as appropriate**
- **Calculate the accumulated depreciation and net book value**
- **Record all supporting documentation in an electronic archive**

51 Programs Presently Being Valued

ARMY

- **Helicopter:** Apache
- **Missiles:** Medium Extended Air Defense System (MEADS), Patriot PAC-3, Joint Land Elevated Netted Sensor System (JLENS), Avenger Air Defense System, Stinger, Sentinel, Surface Launched Advanced Medium Range Air-to-Air Missile (SLAMRAAM)
- **Lasers:** Light and Special Division Interim Sensor (LSDIS), Mobile Tactical High Energy Laser (MTHL)
- **Other:** Joint Tactical Ground Station (JTGS)

NAVY

- **Carriers:** CV-63, CV-64, CVN-65, CV-67, CVN-68 class (68-77), CVNX
- **Amphibious ships:** LHD-1 Class, LPD-17, DDX
- **Submarines:** SSN-21, SSN-637, SSN-688, SSGN-726, SSN-774, Trident II
- **Aircraft:** FA-18/A/B/C/D/E/F

AIR FORCE

- **Bombers:** B-1B, B2
- **Fighters:** F/A 22, F-15, F16, F117 Stealth
- **Airlift:** C-17
- **UAVs:** Predator A, Predator B
- **Trainers:** Joint Primary Aircraft Training System (JPATS), Distributed Mission Program (DMP)
- **Other:** Large Aircraft Infrared Countermeasure (LAIRCM), RC-135, Senior Scout Sensor, Senior Year Sensor, USAFA Glider Replacement Program, Common Low Observable Verification System, Theatre Airborne Reconnaissance Program, US Atomic Energy Detection System, Lease/Support for Special Airlift Mission Aircraft

Assessment of DoD Component Accountability Systems

- **Identify DoD Component PP&E accountability and logistics systems that track military equipment assets**
 - 32 systems identified to date (9 Army, 19 Navy and 4 Air Force)
- **Assess system for needed information and accuracy**
 - System must track items by unique identification number (ship number, tail number, serial number, etc.)
 - System must track delivery, placed in service and disposal dates
 - Accuracy is critical to military equipment accounting and reporting requirements
 - KPMG hired to perform assessment
 - Work already done by PA&E and audit community will help
- **Problems must be remedied by Component with Domain Owner oversight**

Developing a P&E Project the Web-Site

- **P&E Project will be supported by a new Web-site as part of the Change Management and Communication Strategy**
- **Web-site to be developed in phases**
 - **Phase 1** – Rudimentary site quickly established
 - Project status and metrics
 - Documents, briefings, FAQs
 - **Phase 2**
 - Add more robust functionality to include ability to coordinate policy, process and regulatory changes
 - Add links to BMMP and other DoD web-sites
 - **Phase 3**
 - Maintenance and improvements

Impact to DPAS and Its Users

New FASAB Standard for Military Equipment

- DPAS will be modified to depreciate military equipment
- P&E Project Plan includes working with Components to add military equipment to DPAS--generally, support equipment and not major end items

After April 2004

- The Business Enterprise Architecture (BEA) be updated for the new military equipment accounting and reporting requirements
- The BEA will lead to modifications to existing systems and/or the acquisition of a new systems or systems
- Testing and implementation of new systems solutions will begin in FY 2005

***DPAS users will not notice changes
to how they do business until possibly FY 2005***

Other PP&E Related Policy Matters

DoD Capitalization Threshold

- Present threshold is \$100,000, but the GAO believes it should be lowered per letter to the USD(C)
- Based on recent meeting between DCFO, PP&E Policy and GAO, GAO working a “methodology” to determine an appropriate threshold

Bulk Purchases

- Present policy, which is tied to the \$100,000 threshold, is being reconsidered as part of the steps to implement the new accounting requirements for military equipment

PP&E Supporting Documentation

- Department of the Army memo to the OIG requested approval of an alternative approach to documenting the cost of older assets where no supporting documentation is available
- Depending on OIG response, a precedent may be set for “documenting” the cost of PP&E, when the original documentation is no longer available